



The Placeholder CEOs

by Amore, Bennedsen, Mehrotra, Shim, & Wiwattanakantang

DISCUSSANT:

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2024 Global Corporate Governance Colloquium (GCGC)





Amancio Ortega
(1963-2011)



Pablo Isla
(2011-2021)



Marta Ortega-Perez
(2021-)

Summary of Yupana et al. paper

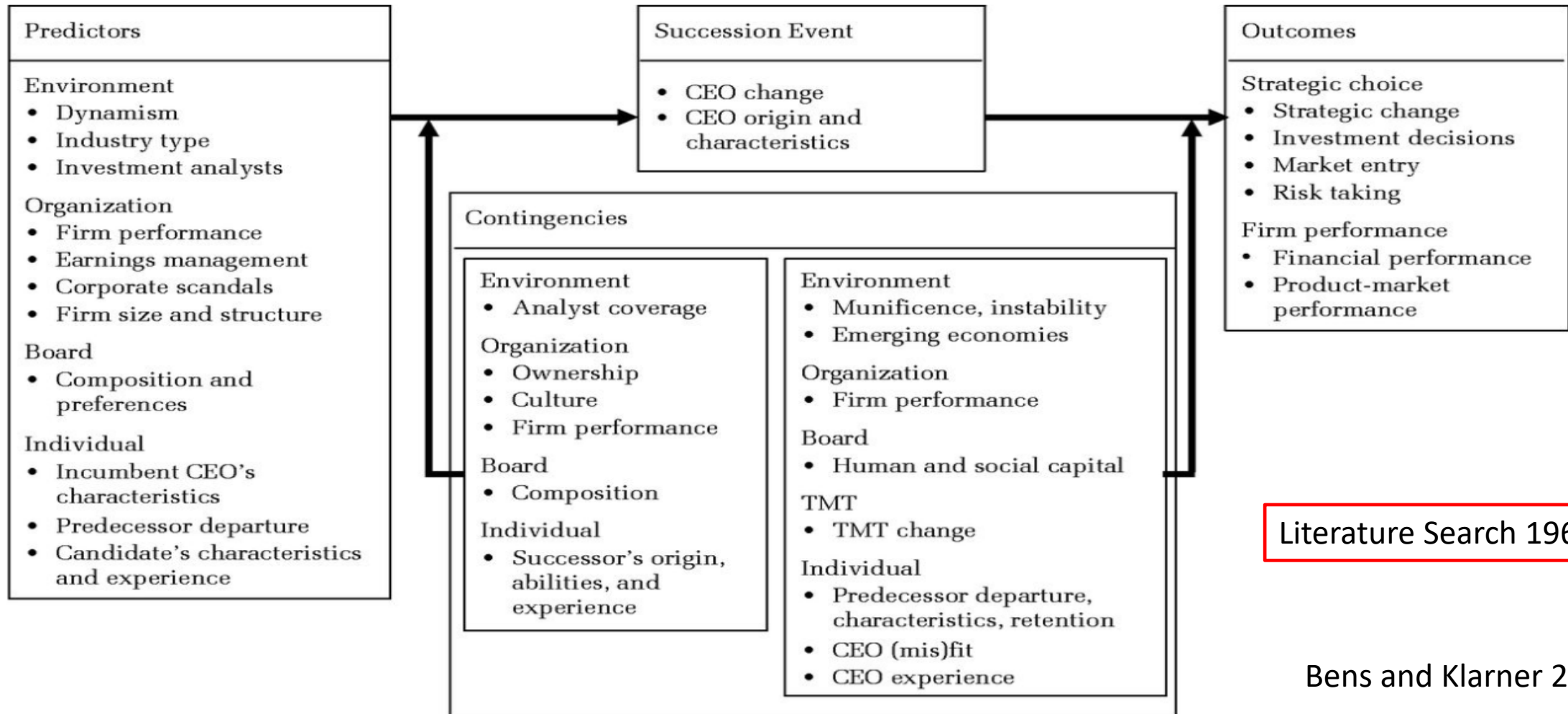
- Management of Succession Planning in Family Firms in Japan (1949-2010)
Placeholder CEOs vs Professional CEOs (outsiders)
- Age of the Patriarch CEO is the main predictor of Family and Placeholder CEO Succession.
 - Presence of family heirs on the board will predict Placeholder CEO
- Firms with high % of family ownership, higher likelihood to appoint a family CEO
- Placeholder vs Professional CEOs and Performance
 - Professional CEOs are appointed to address poor firm performance and achieve higher performance
 - Placeholder CEOs' performance does not significantly differ from family CEOs.

Agenda

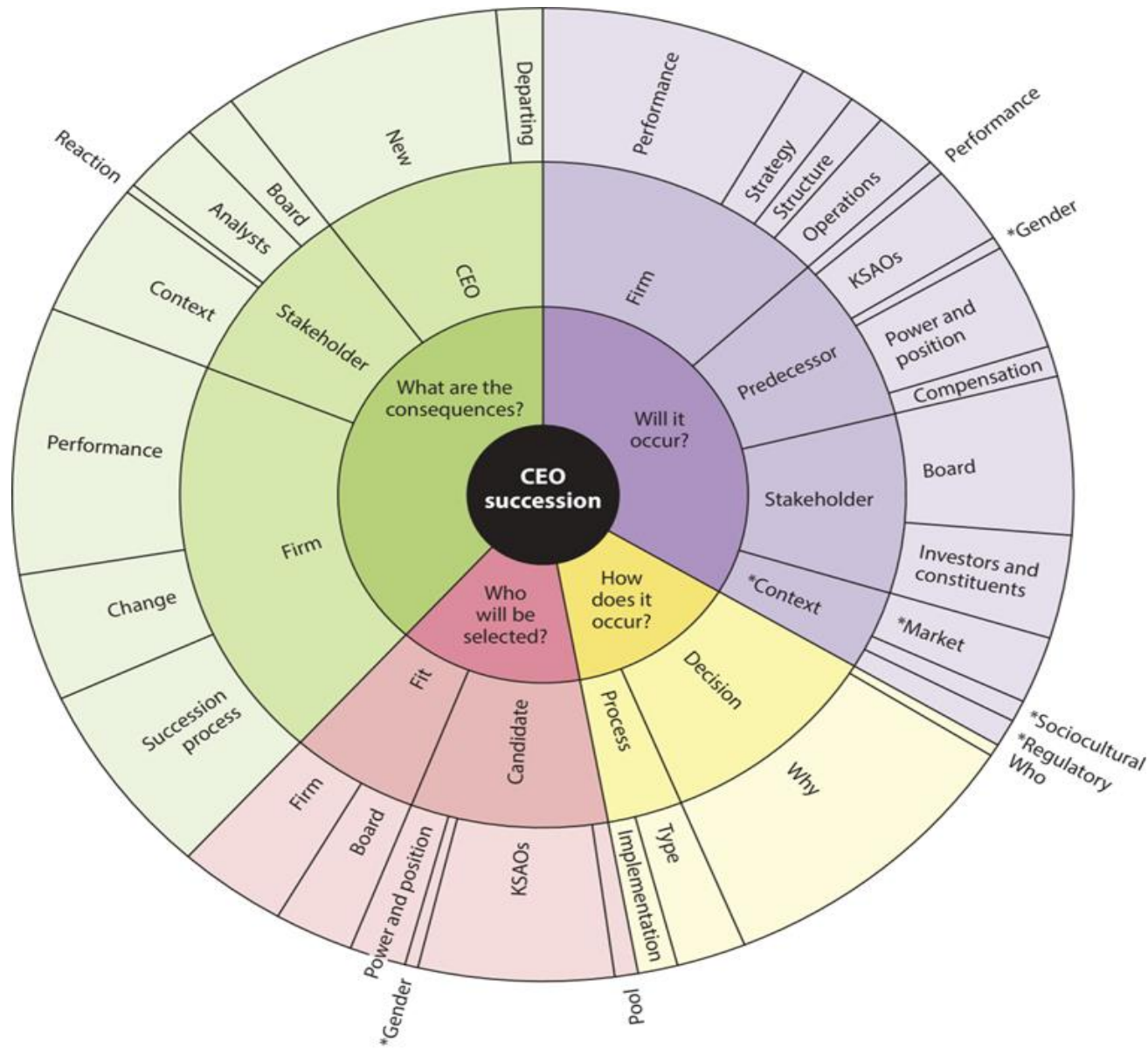
1. CEO Succession as an interdisciplinary area of research
2. Family Firms in Japan ... business history in stakeholder capitalism
3. Next steps in the paper

CEO Succession Research. Long tradition ...

FIGURE 1
CEO Succession Research: An Integrative Framework



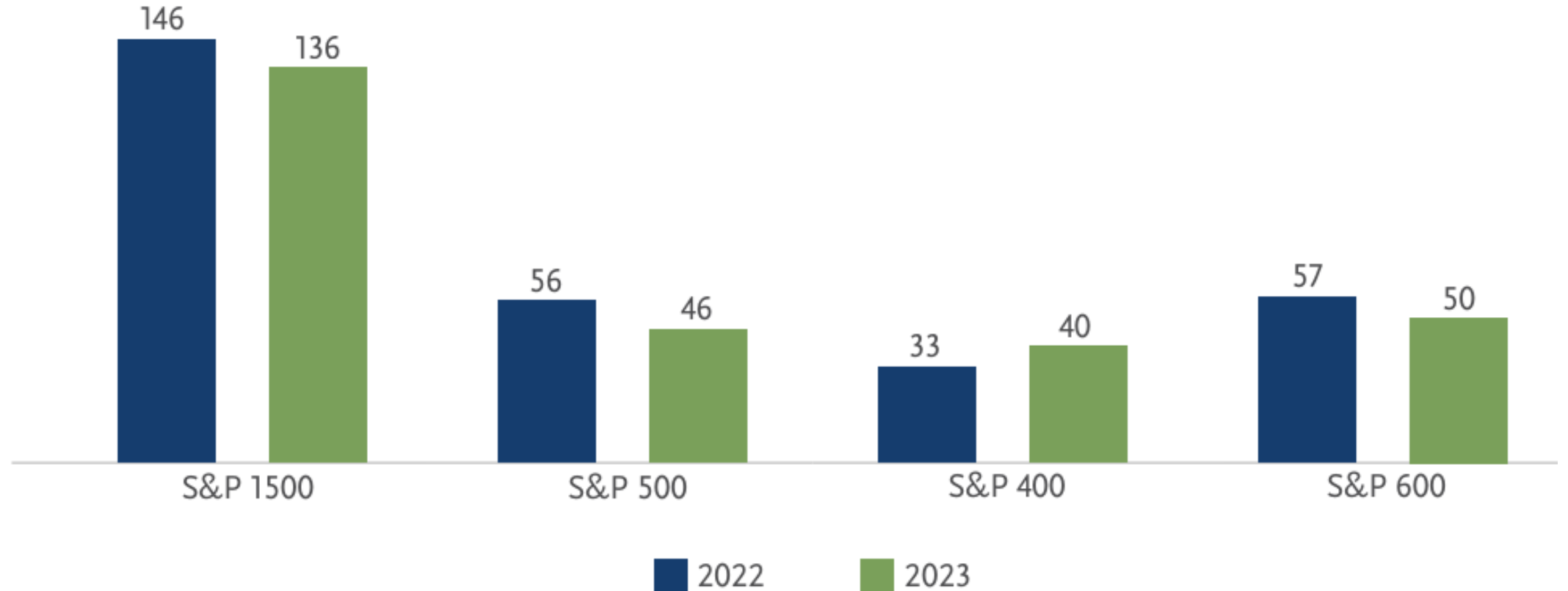
Academic Research on CEO Succession



2014-2020:
117 studies in finance,
management and economics

CEO Succession - United States

S&P 1500 CEO TRANSITIONS, 2022-2023



Insider CEO succession prevails in the US

INSIDER/OUTSIDER SPLIT FOR S&P 500, S&P MIDCAP 400 AND S&P SMALLCAP 600

	S&P 500		MidCap 400		SmallCap 600	
	Insider	Outsider	Insider	Outsider	Insider	Outsider
2023	74%	26%	70%	30%	62%	38%
2022	82%	18%	73%	27%	61%	39%

68%

S&P 1500 internal appointments in 2023 vs. **72% in 2022**

CEO Succession - Europe

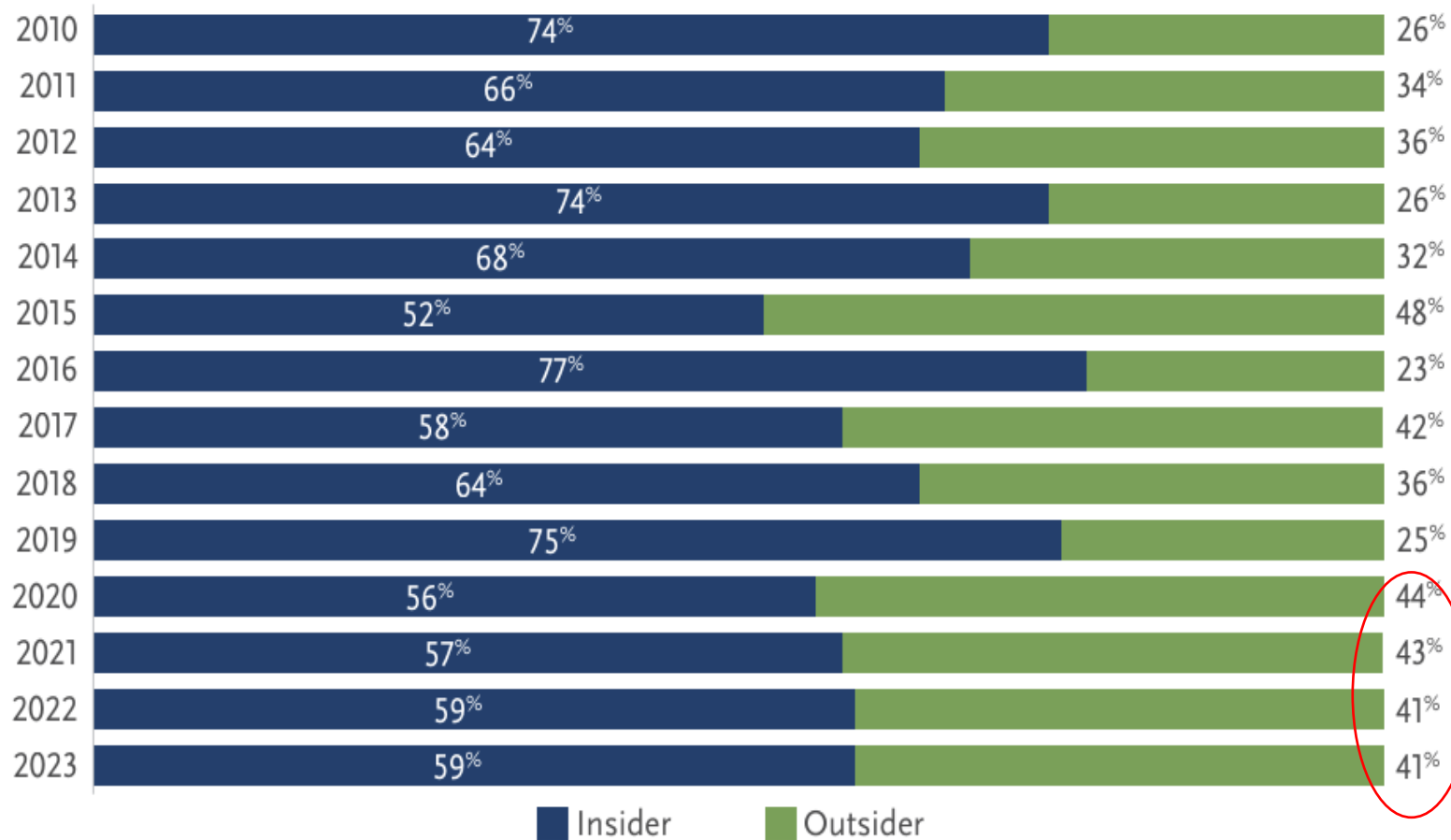
TRANSITIONS BY COUNTRY: 2023

Country	Companies	2023 transitions	Turnover
United Kingdom <i>FTSE</i>	100	17	17%
Switzerland <i>SMI</i>	20	3	15%
Spain <i>IBEX</i>	35	5	14%
Italy <i>FTSE MIB</i>	40	5	13%
Germany <i>DAX</i>	40	4	10%
Netherlands <i>AEX</i>	25	2	8%
Nordics <i>OMX Nordics</i>	40	3	8%
France <i>CAC</i>	40	2	5%
Belgium <i>BEL</i>	20	0	0%
Total	354*	39**	11%

SpencerStuart
2023 CEO Transitions
in Europe

Almost 50-50 insider-outsider

INSIDER/OUTSIDER CEOs: 2010-2023



Latest work: succession planning *implicit* in FF



<https://pubsonline.informs.org/journal/mnsc>

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CEO Succession Roulette

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Departure point:
Anecdotal evidence links succession
risk to significant value destruction

Table 1. CEO Turnover Events (1994–2010)

Year	(1) No. of CEO turnovers	(2) Percentage ExecuComp firms with CEO turnovers	(3) No. of forced CEO turnovers	(4) Percentage forced CEO turnovers ((3)/ (1))	(5) Percentage ExecuComp firms with succession plans	(6) Percentage CEO turnovers with succession plans
1994	118	7.6%	19	16.1%	4.8%	3.4%
1995	183	11.4%	42	23.0%	5.5%	3.8%
1996	168	10.2%	30	17.9%	6.3%	4.2%
1997	187	11.2%	49	26.2%	5.6%	5.9%
1998	222	12.8%	51	23.0%	5.9%	5.9%
1999	217	12.0%	51	23.5%	6.1%	5.5%
2000	253	14.1%	75	29.6%	6.9%	6.7%
2001	263	15.7%	59	22.4%	8.1%	8.0%
2002	179	10.7%	64	35.8%	8.8%	11.2%
2003	166	9.5%	62	37.3%	18.6%	15.7%
2004	172	9.8%	57	33.1%	27.0%	20.3%
2005	200	11.4%	73	36.5%	26.5%	18.5%
2006	189	10.1%	70	37.0%	26.9%	13.8%
2007	190	8.5%	77	40.5%	27.5%	19.5%
2008	245	11.3%	60	24.5%	28.3%	22.4%
2009	191	8.9%	41	21.5%	29.9%	17.8%
2010	137	6.5%	26	19.0%	35.5%	36.5%
Total	3280	10.7%	906	27.5%	16.4%	12.9%
1994-2003 (pre-SOX)	1956	11.5%	502	25.5%	7.7%	7.0%
2004-2010 (post-SOX)	1324	9.5%	404	30.3%	28.8%	21.3%

3280 CEO turnovers,
27.5% forced

Notes. This table reports the number of CEO turnover events in column (1), the percentage of ExecuComp firms with CEO turnovers in column (2), the number and percentage of forced CEO turnovers in columns (3) and (4), the number of ExecuComp firms with disclosed succession plans in column (5), and the percentage of CEO turnovers adhering to predisclosed succession plans in column (6). The last two rows report aggregates over 1994–2003 (pre-Sarbanes-Oxley (SOX) period) and 2004–2010 (post-SOX period).

Findings on CEO succession planning

→ Despite intense scrutiny from investors, markets, and regulators, many public companies have no formal succession plans.

They show that succession planning

1. reduces the cost of management transitions by improving their efficiency.
2. Firms experience not only lower uncertainty around turnover events but also a faster reduction in uncertainty over the incoming CEO's tenure, consistent with faster learning about CEO-firm fit.
3. raises the quality of the CEO-firm match, as evidenced by longer CEO tenure, and improves the board's readiness to replace an underperforming CEO, increasing turnover performance sensitivity.

2. Japan and Family Business



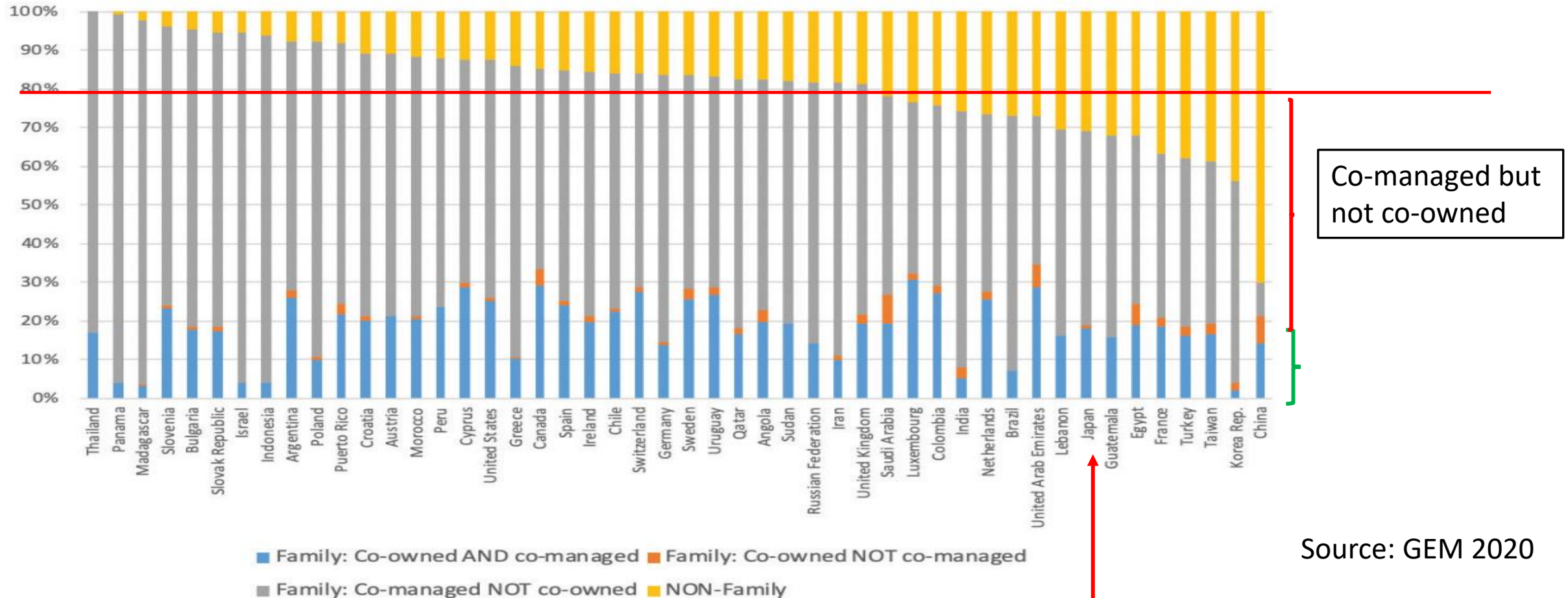
Hoshi Ryokan:
The World's Oldest Family Firm
Hoshi family, 46 generations!



First Female Succession in 1,305 years
Zengoro and his daughter Hisae will succeed
her father (son died in 2012)

Family Firms Worldwide

Figure 2.2: Forms of Family Involvement, and Non-Family Involvement, as a Percentage of Established Business Activity in 48 Economies, Grouped into Four Regions

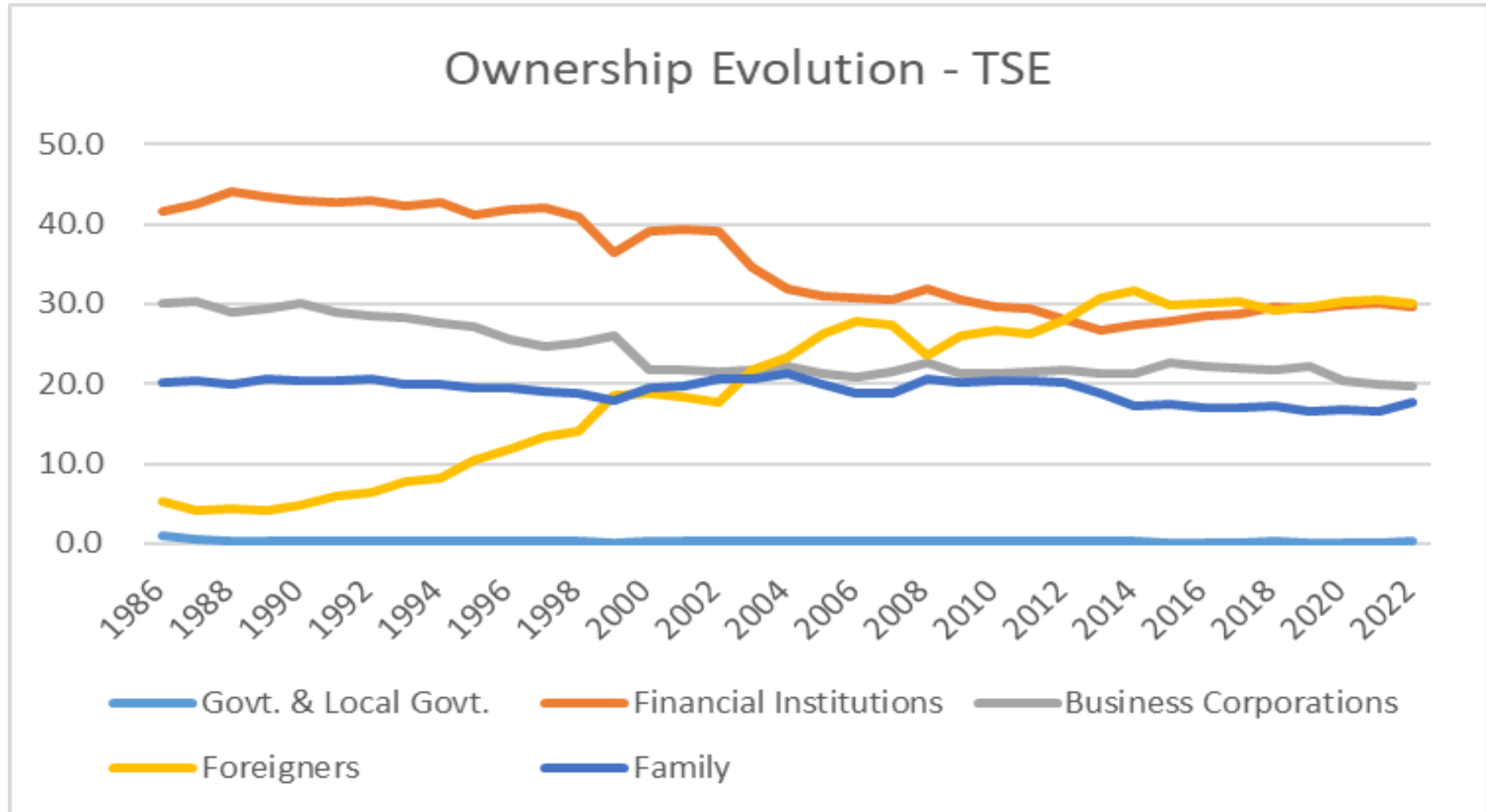


Source: GEM 2020

Japanese *Infamous* Stakeholder-oriented Corporate Governance

- Deakin (2010/2011) argues that most large Japanese firms are run on a variant of the “**community firm**” system in which executives see themselves as having a commitment to maintain the company as an entity in its own right, and view their obligations to customers and employees, present and future, as taking priority over those owed to shareholders

Family Owners in Japanese Stakeholder Capitalism



Family Firms in Japan, 2020 (Refinitiv Eikon)

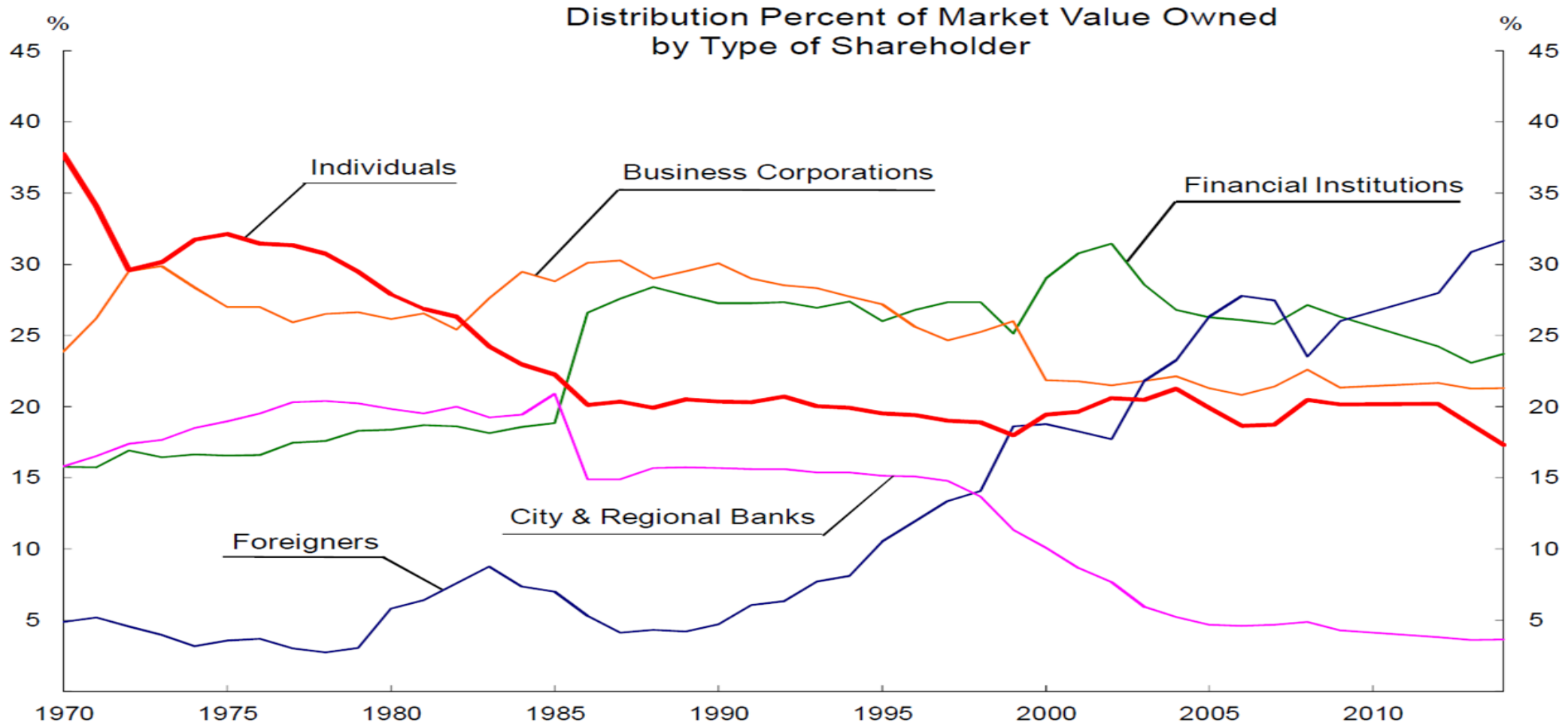
Variable	Obs	Mean	Std. Dev.	Min	Max
Bank Ownership	3,862	0.0333	0.0425	0.0000	0.4873
Corporate Ownership	3,862	0.2646	0.1913	0.0000	0.9591
Family Ownership	3,862	0.1267	0.1741	0.0000	1.0000
Investment Fund Own	3,862	0.1091	0.1196	0.0000	0.7669
Government Ownership	3,862	0.0006	0.0142	0.0000	0.6465
Employee Ownership	3,862	0.0128	0.0228	0.0000	0.3436
Sh1=family Owner AND Sh1>10%	3,862	0.1924	0.3942	0.0000	1.0000
Sh1=family Owner AND Sh1>20%	3,862	0.1176	0.3221	0.0000	1.0000

Japan's type of Largest Owner (2020, Refinitiv Eikon)

Investor Type of SH1	Freq.	Percent
Corporation	2,250	58.26
Family	871	22.55
Investment Advisor	437	11.32
Insurance Company	116	3.00
Bank	93	2.41
Holding Company	40	1.04
Research Firm	18	0.47
Venture Capital	13	0.34
Hedge Fund	10	0.26
Government	6	0.16
Private Equity	4	0.1
Pension Fund	2	0.05
Foundation	1	0.03
Sovereign Wealth	1	0.03

Foreign Ownership Patterns

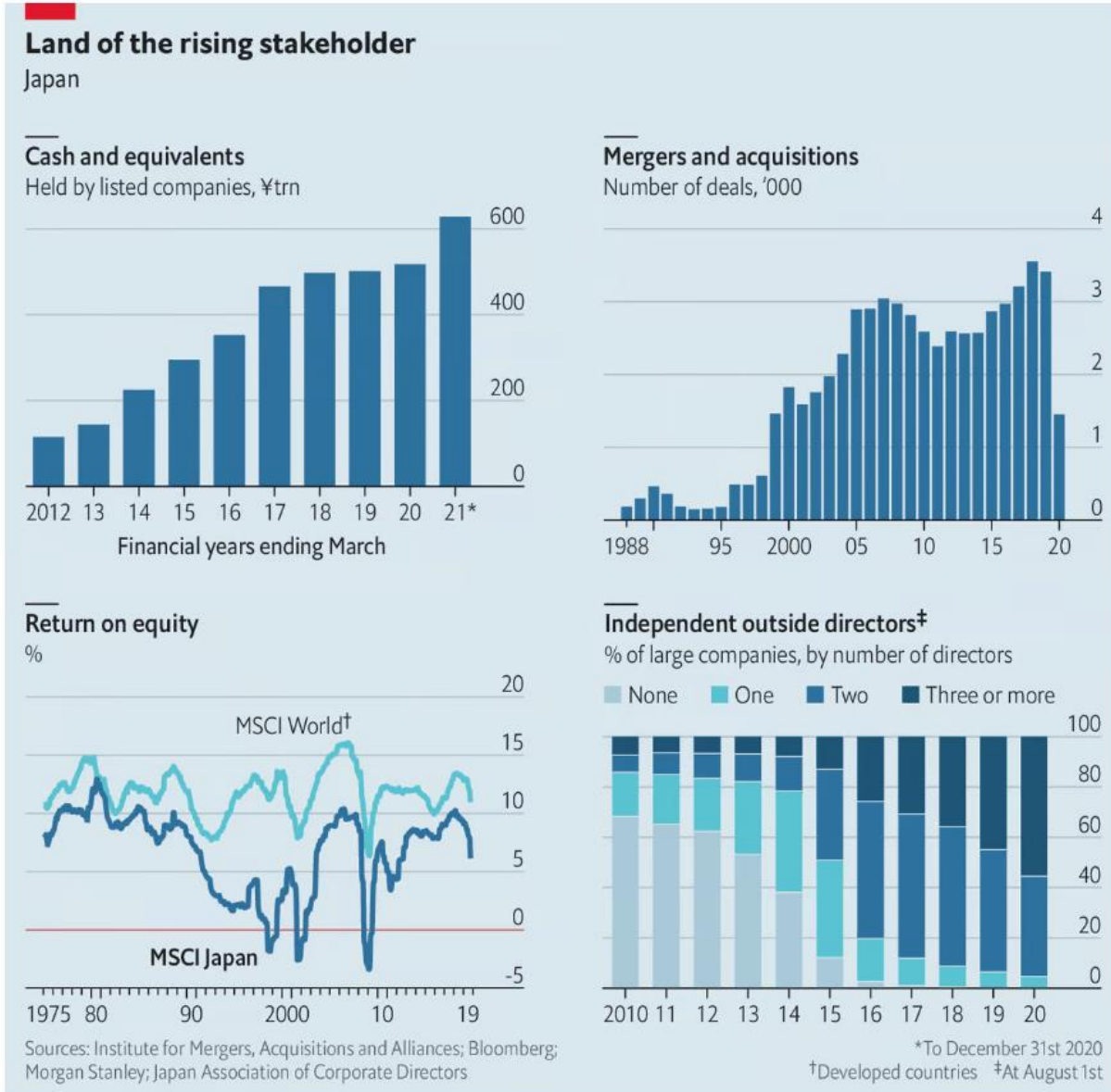
Foreign investors reached 31.7% in 2015 (from less than 5 in 1990)



Foreign Investors' Pressure

- Geng et al. (2015) found evidence from the annual reports of Japanese firms that top management are pressured by foreign owners with short-term interests to aim for higher share stock prices.
- The Nikkei (15/07/2015) : The mood of foreign investors has been buoyed by additional monetary easing taken by the Bank of Japan at the end of October. "Calls for a greater shareholder return are likely to continue in the future," said Mamoru Shimode, chief strategist at Resona Bank.

Japanese *Infamous* Stakeholder-oriented Corporate Governance



- Massive entry of foreign investors since 1990s
- Takeover pills removed
- Independent directors are in the majority on the board of only 6% of large listed firms
- Cross-shareholdings still account for 32% of Japan's market capitalization

Japanese CG Today

The Japanese Stewardship Code

Its Resemblance and Non-resemblance to the UK Code

*Gen Goto**



- “while the goal of the UK Stewardship Code is to **restrain excessive risk-taking and short-termism** by making institutional investors more responsible to the public, the [... 2014...] Japanese Stewardship Code intends to champion shareholders’ interest by **making domestic institutional investors more active shareholders** who would exert pressure on entrenched management.”

3. Back to the paper

Three Recommendations

1. Research Design

- Family Firms: firms where the founding family is listed among the top 10 largest shareholders **OR** serves as a member of the board.
 - Intention to pass it over to next generation
- A placeholder CEO is a nonfamily manager who serves between two distinct family CEOs. How long? Pablo Isla (Inditex): 17 years
- Outcome variable: Wider Concept of Performance
 - Innovation, R&D
 - Non-financial performance
 - Internationalization
- Overtime changes as ownership shifts and firms grow
- Add another decade 😊 (2010 onwards ...)
- Dif-in-dif in Tables 7 and 8 ... ?

2. Predictions. What could be going on? **WHY?**

- What are the mechanisms driving placeholder CEOs and Performance?
 - Agency Theory
 - Stewardship Theory
 - Resource Dependence
 - Socio-Emotional Wealth – preservation of family control
 - Institutional Logics of legacy vs financial gains
- Who appoints the CEO in Japan FB?
 - Channel: family heirs groomed through board service
- Change in ownership structures
 - Cross-shareholding and banks withdrawing as owners
- Over time shifts

3. Ruling out Alternative Explanations & Include Contingencies

- Family CEO staying longer ? Having children at a later age?
- Heir too young?? (btw 40 and 50 yrs old) ...waiting on the board
- **Why?** The results that placeholder CEO do not improve performance may also be related to stricter oversight, or lower risk-taking incentives; or even to a lack of support of key stakeholders.
- Break it down for periods
 - Massive entry of foreign investors
 - Compensation patterns
- External validity – comparative analysis? Industry

Final Question

- How are (FF) boards thinking about the qualities and capabilities CEOs need?
- How should the profile of CEOs in FFs evolve amid dramatic shifts in the scale, scope, pace and interconnectedness of business challenges and the broader and more complex stakeholder demands CEOs are facing?

Thank you!

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